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Brief on Grain Marketing

Prepared by

L. GOUGH, *President*
Texas Wheat Growers Association

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Amarillo, Texas
January, 1928

INTRODUCTION

This brief is prepared so that those who have neither the time nor the opportunity to study the reports from which the evidence is quoted, may know the evil practices that now exist on the Chicago Board of Trade and other exchanges of like character, and realize, as one writer has put it, "These evils can and must be stopped." That grain producers do not receive just returns when marketing their product, and that this fact is due to the system of speculation and manipulation on the grain exchanges, is conclusively shown in official reports of investigations carried on by our government.

The authorities cited in defense of this claim include the following:

Reports of the Federal Trade Commission on the Grain Trade.—Volumes 1 to 7 inclusive.

Official reports of the Grain Futures Administration.

Department Bulletin No. 1479—Speculative Transactions in the 1926 May Wheat Future.

Senate Document No. 135—A report of the Grain Futures Administration relative to the extreme fluctuation in the price of wheat futures during the early part of 1925.

Speculation and the Price of Wheat—By Rollin E. Smith, from his own observations as a member of the Minneapolis Chamber of Commerce and the Chicago Board of Trade.

There is enough "dry rot" to be found in the present marketing system, as conducted on the leading exchanges to destroy the whole system, so far as any benefit to producers is concerned, if the "dry rot" it not removed.

Legitimate dealing in grain or other farm products is not condemned. Gambling in grain, cotton or other farm products, as now permitted, is unjustifiable. The exchange system as now conducted is false and artificial and those who seek to perpetuate it, with all its evils, have since the time of farmers elevators, as noted in Part 1 of this brief, vigorously opposed every effort of farmers to control the marketing of their own products.

Part 1 of this brief submits evidence of opposition, from the organized grain trade, to farmers cooperative elevators. Volume 1 of the Federal Trade Commission Report contains much evidence of opposition in addition to that quoted herein.

Part 2 briefs the evidence which shows that future trading does not stabilize the market, but on the contrary causes violent fluctuations to the detriment of the producer and the public.

Part 3 shows that the investigators are unanimous in saying that the bulk of future trading constitutes pure gambling transactions and has neither legal nor moral justification.

Part 4 introduces evidence to show that only large professional speculators profit through future trading, and that producers and the public, as well as small speculators, pay dearly for their folly.

It is the aim of Judge Gough in presenting this brief to cause men to think on the important question of marketing farm products; to lead them to investigate and know why conditions are as they are and learn what action is necessary to eliminate the objectionable practices now prevailing in the grain exchanges.

With the hope that the contents of this brief will lead you to look further into the question of marketing farm products, the evidence presented herein is respectfully submitted.

C. A. MANGUM, *Publicity Director,*
Texas Wheat Growers Association,
Amarillo, Texas.

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STATEMENT

In his letter of instruction to the Federal Trade Commission President Wilson said,

"Unjustifiable fluctuations in prices are not merely demoralizing; they inevitably deter adequate production. It has been alleged before committees of the Congress and elsewhere that the course of trade in important food products is not free, but is restricted and controlled by artificial and illegal means."

Volume 1, *Appendix No.* 1, *Page* 315, *Federal Trade Commission Report.*

The investigation by the Federal Trade Commission shows the allegations were true and investigations made since by the Grain Futures Administration show that these artificial and illegal means control the prices of grain to the detriment of the farmer and the general "public." So far, neither the president, congress nor the "public" have taken any active steps to stop these illegal and artificial means.

PART I

Farmers Cooperative Elevators

Evidence of Opposition From Organized Grain Trade

Volume 1 of the Federal Trade Commission Report, gives the development of the "Country Grain Marketing," building of elevators, etc. The practices became so bad that the farmers, to protect themselves, began to build cooperative elevators. *Pages* 83-85.

"The trade at that time had a system of pooling the grain among the elevators at stations, and a price fixing committee which did not work in the interest of the farmers." *Vol.* 1, *Pages* 83-85.

Pages 86-91 show the opposition and the unfair tactics the grain trade used to defeat the farmers in their cooperative efforts.

Volume 1, *Page* 89—A Sample Letter.

IOWA GRAIN DEALERS ASSOCIATION

Geo. A. Wells, Secretary and Treasurer
Des Moines, Iowa, Feb. 17, 1903.

Eschenberg & Dalton,
Chicago, Illinois.
Gentlemen:

We desire to advise you that the Iowa Grain Dealers' Association does not recognize Farmers Elevator Companies, organized for the purpose of agitating local markets or that work on the assessment plan. We shall use all legitimate means possible to protect our members from such competition, a competition that if successful, means that the grain dealer who should earn

a legitimate profit must go out of business.—(Then gives the names of Farmer Elevator Companies.) You will understand that it is my duty as secretary of the association to keep the members informed in regard to the disposition and conduct of bidders and receivers."

Yours truly,
(Signed) Geo. A. Wells, Secretary.

From pages 245-314, Volume 1, are copies of letters showing the mutual understanding and cooperation of the grain trade to cheat the farmers and prevent farmers' elevators from being successful. The following are a few samples:

(Taken from the files of the Empire Elevator Co.)

August 31, 1914.

Mr. H. Thompson,
Oakes, North Dakota.
Dear Sir:

We want you to use your influence to keep the market down at Ellendale. We do not want any fighting going on there, or the first thing we know, we will have to put the price up at Winship.—

(Minneapolis, St. Paul & Sault Sainte Marie Railway Co. Office of Freight Agent.)

September 11, 1916.

Northland Elevator Co.,
Mr. F. J. Smith, City.
Dear Sir:

Will appreciate your taking whatever action you consistently can at Omemee, North Dakota, so our mutual interests will be protected there against the Farmers who I understand, are paying considerably over grade and over list.

(Signed) E. G. Clark,
General Freight Agent Soo Line.

(From Empire Elevator Co.)

Station—Hutchinson, Minn.,
October 28, 1916.

Mr. J. R. McMillan,
Minneapolis, Minn.
Dear Sir:

I have now seen all the buyers here today and they have all agreed to grade all wheat No. 3 that contains either cockle and wild peas at all, and that which contains noticeable amount will be graded lower, according to the amount it contains, and all the boys seemed to be very willing to do so, and the results were that three loads of wheat drove out of our elevator this afternoon and went to some one else for a better grade, but I did not find out if they got it or not as they went over on the G. N. line with

it, but I think the farmers will soon learn that they cannot get any better.

Yours truly,
(Signed) H. Thompson, Supt.

PART II
Trading In Futures

Evidence Shows that Future Trading Does Not Stabilize the Market, but on the Contrary, Causes Violent Fluctuations.

The Grain Trade as now practiced is based on the operations of the Chicago Board of Trade, which is almost exclusively dealing in so-called futures. Does this dealing in futures aid agriculture and benefit society as a whole? If so, it has a right to live; if not, it must be stopped. One of the leading arguments to justify future trading as now practiced, is that it stabilizes prices. If it does stabilize prices, is the stabilized price sufficient to give the producer a fair return on his investment and labor?

In Vol. 7, *Chapter* 6, *Page* 207—The commission says:

"The machinery of future trading has been elaborated and developed to a high degree for the various purposes for which it may be utilized. The machinery is costly to maintain in operation, but the service it performs, at least if its costs are a part of the costs of maintaining competition, may well be worth the outlay. Whether this result is actually realized depends upon what the machinery does and especially its usefulness as tested by its relation to prices. What the machinery does can be shown to advantage by devoting some attention to what it does not do.

"Uncertainty of the future is the foundation upon which future trading is built. Such uncertainty is NOT abolished or EVEN REDUCED for society as a whole by the institution of future trading.—The machinery of future trading might reduce risks through stabilizing prices. That it does not appear to do this may be taken to be evidence that speculators are, on the whole, as ignorant of the future and as unable to make correct predictions as are the grain merchants. If this adequately describes the situation the services performed by the futures markets are much narrower than they might well be expected to be, relating merely to the hedging uses of the market instead of broadly to the needs of all producers and consumers through stabilization of prices.—The adjustment of prices to the size of crops would obviously be made without the aid of futures."

Vol. VII, Page 211. "Speculators who know nothing about the market, or about commercial affairs generally, probably tend to make the market unstable and less efficient generally. There may be too much speculation even for the needs of the grain trade."

FOOT NOTE:—Vol. VII, Page 211—"Undoubtedly too much speculation is bad. When it outweighs legitimate trading its influence is detrimental. Then commercial factors of value become subordinate to artificial fac-

tors of speculation. This can not help but work hardships upon both producers and consumers."

Vol. VII, Page 228. "The general inference from these figures is that volume of trading as such does not tend to stabilize prices.—If the heavy trading is itself caused by other conditions than those relating to supply and demand for grain, the heavy trading is not a phase of price adjustment but a disturbing factor."

Vol. VII, Page 237. "It is evidently characteristic of an active futures market to exhibit an enormously greater number of minor fluctuations than do actual commodity markets. Since minor fluctuations, as judged after the event are nonfunctional, in the sense of being mainly of no significance in relation to SUPPLY AND DEMAND conditions for actual grain, they might be the basis for a severe arraignment of future trading. It is true their effect outside the futures themselves is considerably toned down, BUT WHATEVER EFFECT IS LEFT IS BAD."

Vol. VII, Page 239. "In terms of stabilization the range of variation of prices is probably increased rather than reduced by speculation."

Senate Document 135—*Page* 1. "These large scale buying and selling operations completely disrupted the market and resulted in abnormal fluctuations, which were felt in every other large grain market of the world. "

Page 2 shows a drop of 65 1-2c in 30 days. Also fluctuations of 10 to 13¼c and 13½ c in a day.

Senate Document 135, *Page* 2. "The violent and unusual price changes occurring throughout this period practically paralyzed the grain and milling business and led to much dissatisfaction and discontent among wheat producers everywhere."

Senate Document 135, *Page* 5. "Those who trade largely on the basis of mob psychology and faith in their ability through heavy trading to bring about temporary market conditions of which they may take advantage to make profits. Their operations and presence in the market are distinctly destructive regardless of whether their operations serve to move prices up or down.—Such operations, while not always profitable, not only cause large price changes but also unbalance the whole market. They can hardly be viewed as other than manipulative and destructive in character."

Senate Document 135, *Page* 6. "This study clearly indicates that large speculative operations, either on the long or short side, contain an element of grave danger. They are a constant hazard in the market, the force of which may move prices far out of line with the normal.

Senate Document 135, *Page* 10. "In fact all branches of the cash trade were more or less paralyzed as a result of the rapidly falling prices."

Department Bulletin 1479, *Page* 6. "The range of the 1925

May wheat future was 86¼ and 1926 May wheat, 50⅜."

Department Bulletin 1479, *Page* 42. "There is apparently no limit to the volume of buying or to the volume of selling and as a result market resistance or support weakens."

After giving remedies the supervisor adds:

Department Bulletin 1479, *Page* 42. "These conclusions are based on the assumption that the grain trade and the farmers desire a greater degree of price stability than now exist."

Report of the Grain Futures Administration, 1925, *Page* 6. "The average daily range in price for the period in Liverpool was 2.2 cents while in Chicago it was 4.43 cents and in Winnipeg 4.65 cents. The explanation advanced as to why the average at Liverpool is only one-half of that for Chicago and Winnipeg, is that in Liverpool a large percentage of the future trading is more closely tied up to their cash grain transactions whereas in the two larger North American markets the speculative element plays the more important role."

The Federal Trade Commission Reports show that the future trading in Liverpool is less than the smallest of the American Exchanges and the supervisor of the Grain Futures Act says there is more trading done in Chicago in five minutes than in Liverpool in all day. Hence, it follows that the less future trading the more stable the price. The more future trading the more unstable the price. Also the more closely future trading is tied to the cash grain transactions the more stable the prices. Therefore, to have stable prices confine all future trades to cash transactions. More evidence can be had by consulting volumes 2, 3, 4, 5, and 6, of Federal Trade Commission reports but the citations given, together with every day experience of the farmer and the public, should be enough to convince anyone that future trading as practiced on the Chicago Board of Trade does not tend to stabilize prices; that it performs no useful purpose for the producer or society as a whole.

The next virtue claimed for the Chicago Board of Trade is its facilities for hedging against loss by fluctuations in the market. On this virtue the exchanges almost wholly rested their case in the hearing on the Grain Futures Act or the Capper-Tincher Law, before the Agricultural Committee of the house.

But this fact must always be remembered, that in making a hedge to protect against loss that the protection is sought from the parties who bring about the conditions that cause the need of protection.

Question. If an institution brings about conditions that cause the need of protection, can that institution be relied upon to adequately furnish the protection?

Federal Trade Commission Reports on the Grain Trade, Vol 7, *Page* 239 *says*: "If the futures market has a reason for being, this consists in its business uses and specifically in its serviceability for hedging. But hedging must be shown to be of advantage to the community in order to establish a good case for the futures

and not merely a convenience to merchants of which the effect ends there."

The commission then goes on to show the adverse effect of manipulation on the value of hedging.

Vol. 7, *Page* 255. "This is especially true of the effect that manipulation on the short side will have, since it will tend to throw the futures to a discount as compared with cash, a situation which is especially bad for hedging sales."

Vol. 7, *Page* 35. "The theory of hedging does not involve actual delivery, and in practice the per cent of deliveries is small."

Vol. 7, *Page* 37. "The argument for the advantage of hedging naturally leads up to the claim that, because of the futures market, grain is handled on a much lower margin from producer to consumer than commodities without such opportunity for the elimination or reduction of risk.

"This advantage can, however, more plausibly be attributed to broader and more efficient competition than directly to the reduction of risks. The hedging argument may be overworked. Merchandising is certainly possible without hedging."

In this connection see *Vol.* 6, *Page* 187. "For the United States as a whole it is of course chiefly the effect of hedging conditions upon terminal dealers that is important, since direct hedging by country elevators is usual only in the northwest. These dealers are doubtless very well able to take care of themselves, even in an unsatisfactory hedging market. Even with them, however, the discount makes them less inclined to accumulate large stocks and more inclined to restrict their buying to quantities they can immediately sell—a policy which does not react favorably on the farmer, since it keeps down the demand of at least one important factor in the market. Even according to the view of the situation that makes the best of it for the farmer, the prevalence of the discounts adds to the cost of hedging and thus makes it necessary for the grain dealer to take a wider gross margin."

Vol. 7, *Pages* 64-65. "If the futures market does not offer facilities by which the risk may be definitely eliminated, but instead offers only qualified protection accompanied by such unfamiliar risks as may be developed by future trading as such, the argument for strict hedging is much weakened. Even though the theory of hedging be sound, the instrumentalities available may require so high a degree of skill for their efficient and safe employment as to be useless, or worse, for the small grain dealer who can not concern himself with future trading technique.

"If the hedger finds the conditions actually met in the futures markets such as requires much technical skill and judgment, hedging itself involves risks with which the dealer is probably less able to cope than he is with ordinary mercantile hazards—hedging does not work properly where discounts on the future are considerable nor where congestion develops near the maturity of the option. Under such circumstances the best that may be

said for hedging is that the loss is limited. Occasionally a terminal grain trade man may be found who says that it costs more to hedge than it does not to hedge, more money being lost than made."

Also in Volume 1, of the Federal Trade Commission Report, we are shown that on the average those who do not hedge come out as well or better than those who do. The main catch phrase used by the advocates of hedging is that it's an insurance.

Vol. 7, *Page* 65, the Commission says: "The future contracts used in hedging is not an insurance contract in any proper sense even if it serves somewhat similar purpose. There is no specific premium paid for specified protection. The hedger gives up gains as well as avoids losses."

In this connection see *Volume* 4, *Federal Trade Commission Report, page* 53. "But an actual study of transactions discloses the fact that at times hedging proves to be not a protection but is the cause of losses, occasionally quite heavy, therefore, in any event the use of the word 'insurance' to describe the device is NOT warranted."

In *Senate Document No.* 135, *page* 6, in speaking of how speculative operations are a constant hazard to the market, the supervisor says. "The force of which may move prices far out of line with the normal, and, temporarily , at least destroy completely the hedging value of the futures market." On page 10, the supervisor says: "It seems apparent, however, that heavy speculative transactions by individuals who operate first on one side of the market and then on the other, in an effort to force sudden and erratic price changes, that have but little, if any, relationship to supply and demand, hinder, rather than help, legitimate hedging operations."

Volume 5 of the Federal Trade Commission, page 184, shows how terminal elevator men can refuse to buy in their hedges and run the market down until their profits are made.

Volume 6, letter of submittal, on page XX they say, "The fundamental service in future trading occurs in connection with the hedging use of futures market by grain dealers, millers, and others. Hedging which is sometimes called 'price insurance,' is employed by cash grain merchants in an effort to avoid the risks of price changes, with the losses or gains involved by making a counterbalancing sale or purchase in the futures market. It appears that under such conditions as have prevailed in recent years, the futures market is not a very efficient means of such insurance. The element of risk that remains, where there is careful hedging, is still considerable, and perhaps unnecessarily large. The machinery of future trading is imperfect in this respect. Furthermore, the working of the machinery has not improved in the last thirty years, and even before the war (1917) was probably not as good as it had been previously. Moreover, any system of insurance against losses from price changes is difficult to develop.

Vol. 6, *Page XXI.* "This bias of the futures market operates especially to depress unduly the next crop options. The downward bias of the future market in large part explains the tendency of the future prices to be at a discount below the cash price and thus to impair the value of the hedging sale. The argument for future trading most emphasized by the grain trade is the asserted lowness, by reason of hedging facilities, of the margin on which grain is handled from producer to consumer. Statistical proof of this contention has not been obtained, and, from the nature of the case, it would be extremely difficult, if not impossible, of statistical proof, even in periods of comparative stability of general economic conditions."

In the text book, "Making the Most of Agriculture," by Macklin, Grimes and Cobb, under the title, "Kinds of Risk-spreading," shows that hedging does not benefit the farmer, and on page 105, they say, "It has been difficult for the owners and operators of private marketing companies to realize that their risk-spreading devices which protected them against the losses and dangers of fluctuating prices did not similarly protect the farmer."

Volume 7, *Page* 15. "The transfer of risks from merchants to speculators may be of service to members of the grain trade while involving no service, or even an economic *disservice to society in general.*"

Vol. 7, *Page* 96. "The conclusion indicated by analysis along the lines indicated, (details not printed,) is negative, namely, that there is no seasonal cycle for future trading—evidently, instead of coming at a time when it has an organic relation to marketing processes the speculative wind 'bloweth where it listeth'."

Vol. 7, *Page* 203. "The results of trading in futures on a speculative basis appear in these returns to be almost uniformly *unprofitable.*" One speculator relates that his "experience was worse than either profitable or unprofitable." A flour salesman says, "My experience has been that every trader gets the worst of it ninety-nine times out of a hundred."

Much more proof can be given to show that hedging has no economic value, for the producer and consumer nor for so-society as a whole, but these citations should be sufficient proof to convince any thinking mind that the benefits from hedging does not justify the system of future trading as practiced by the exchanges. Having seen that future trading and speculation has no economic value to society as a whole, it may be well to consider some of the evils practiced in connection with future trading, and perhaps one of the greatest evils is its facilities for encouraging gambling transactions.

PART III

The Elements of Gambling in Future Trading

Investigators are Unanimous in Saying That the Bulk of Future Trading Constitutes Pure Gambling Transactions.

In volume 5, Federal Trade Commission Report, page 21, the commission says: "In the chapter on the legal status of future trading attention is also necessarily called to the fact that speculative exchanges are available as gambling facilities *and are so used.*"

In speaking of the speculator who only trades in futures, the commission says: "He has no *economic function* to perform—It is not difficult to see why such a method of trading often becomes gambling. It has about all the external traits. The fact that price movement, the contingency dealt with, is a matter of business and economics certainly does not take it out of the gambling class." *Vol.* 5, *Page* 275.

Volume 7, *Page* 233. "The vice of gambling cannot be entirely prevented by legislative enactment. It can be diminished through preventing facilities being offered.—The general social evils of the use of speculative facilities for gambling are like the evils of the saloon.

Vol. 7, *Page* 234. "Even where the wire houses have a high business standard and try to select their customers, there is a tendency, because of the accessibility of frequent quotations and the continuous stream of gossip, to stimulate speculation and gambling."

Vol. 7, *Page* 235. "In gambling, what one gains another loses. But the transfer of money is more than likely to be from one who needs it much, to one who needs it less. In legitimate trade, on the other hand, it is ordinarily true that both parties gained by the exchange since each may be expected to obtain something that is worth more to him than that with which he parts. Future trading more nearly resembles gambling, in the respect just mentioned than it does ordinary buying and selling."

Vol. 7, *Page* 236. "Any futures market is more or less of a gambling facility."

Vol. 7, *Page* 237. "There has been presented in other connections more important evidence of abnormalities and of the influence of technical conditions upon delivery month prices, especially in May. The point of the present reference to the matter is the indicated importance in future trading of conditions *not* relating to supply and demand for actual grain. *Such technical factors foster gambling.* It is not merely men with 'knowledge of universal conditions,' who interest themselves in future trading, but also a good many who are there because of the gambling facility afforded. It is unfortunate that the in-

terest of commission merchants and wire houses is on the side of bringing in as much trade as possible."

The report also shows that this element of gambling is very large. Numerous other citations and court decisions can be shown to prove that a great majority of all the speculative future trades are mere gambling transactions, are "illegal, void, and against public policy."

Allen vs. Denman, S. W. R., Vol. 278, P. 899.

Hibbler vs. Howe, S. W. R., Vol. 295, P. 299.

White vs. Turner-Hudnut Co., N. E. R., P. 572.

"There is no reason why the Chicago Board of Trade, or Stock Exchange, or any similar institution anywhere in the state should be made a sanctuary for those who commit the crime of gambling on futures in grain or stocks." Supreme Court, Illinois, *Miller vs. Sincere,* 112 N. E., P. 664.

A salesman says: "My honest opinion concerning trading in futures is that the Chicago Board of Trade is the most gigantic gambling institution in the country, and should be abolished or regulated very strenuously." *Vol.* 7, *Page* 203.

Vol. 7, *Page* 220. "The practice of concealing operations is interesting evidence of technical factors in the futures market which are independent of supply and demand for the actual commodity. Most of the large traders in Chicago attempt to conceal the buying and selling by subdividing their business between several houses and sometimes in addition by having the trades carried under an assumed name or as a numbered account, the identity of the trader being known only to the partners of the commission house. This practice may be used for the purpose of manipulation since trades may be concentrated or scattered at will." See also Senate Doc. No. 135, Page X.

Vol. 7, *Page* 229. "The 'tailing on' state of mind is one of the greatest evils of speculation, it is not only responsible for wide-spread losses ,thus inflicting great *social evil,* but it deranges the price determining processes of the speculative market.

PART IV

Who Benefits From Future Trading?

The next question to be considered in connection with future trading is: Whom does this future trading benefit? Also in this connection the manner of price fixing and manipulation will be considered.

"Some indirect losses from future trading are susceptible of pecuniary valuation and some not. In addition to the net

loss on trades made, there is a large amount of attention and time and nervous energy taken from the losers in the process of getting to the end of their resources, or to the limit of 'what they can afford to lose.' Those who lose are numerous and have comparatively small resources, so that the sacrifice involved in the loss is very costly to the individuals and to their families. On the other hand, those who profit by speculation ARE A FEW BIG OPERATORS. The concentration of many losses to make a few large gains means that the usefulness to society of the RESOURCES THUS CONCENTRATED IS REDUCED." Vol. 7, *Page* 232.

Volume 7, *Page* 58. "Or the futures market may be dominated by short sellers who are bears as to what conditions will be, for example, in the coming May.."

Vol. 7, *Page* 69. "The natural tendency of a selling order, however, is to put the market down, and of a buying order to put it up."

Vol. 7, *Page* 255. "It has been admitted by officials of the exchanges that on occasions the big shorts have put prices down. The sound objection to short selling and likewise to buying by persons who do not want and do not expect to take what they buy—is not that it has an effect on prices, but that (sometimes) it affects prices artificially instead of by way of anticipation of their natural tendency.

"So far as the cost of manipulation is merely a matter of taking money out of the pockets of speculators on the other side of the market, it is not socially of great importance. Its effect, however, upon prices and especially upon spreads, may injure the market from the point of view of its use by the cash grain trade for hedging purposes. This is especially true of the effect that manipulation on the short side will have, since it will tend to throw the futures to a discount as compared with cash, a situation which is especially bad, for hedging sales."

Vol. 7, *Page* 256. "The idea of deceit or trickery is in general popularly associated with that of manipulation, although it is probably not essential. The exploitation of shorts by way of a corner, for instance, is primarily a matter of taking advantage of technical conditions of trading to extort money on the basis of values reached in the pit which do not represent true commercial value."

Vol. 7, *Page* 257. "Most other instances of manipulation however, are primarily dependent on deceiving the public or obtaining information in advance of traders generally, or employing trickery in some other way essential to the project and creating a false impression as to what is happening. Without some check there is a temptation for a private wire house to send out a rumor, just because it is sensational, as a means of exciting interest and getting trade. An active market causes traders to move in and out and yields commissions. If there is

no definite valuable information at hand, rumors and speculations about rumors will do to keep the wires busy. The situation described makes it possible for a dishonest inventor of rumors who is clever to get his invention spread broadcast through the wire houses."

In this connection see page 70, Volume 5, and also pages 76 and 77, as to dishonesty and motives. On page 70, we quote, "Some houses have 'gossip-makers' to keep up the supply and make the matter interesting, who often stimulate interest in the market by mixing facts with imagination." In connection with dishonesty see report of Grain Futures Administration, Oct. 1, 1925, page 12.

Volume 7, *Page* 258. "The reporting of a serious damage by frost is a thing which has frequently occurred without sufficient excuse. There is one sort of dishonesty in market letters and advice which ought to be severely dealt with, although its effect upon prices, and therefore, its practical manipulative character, is of small importance. For a speculator to put out market circulars advising the public to buy (or sell) and then himself do the contrary is thoroughly dishonest. In cases of extended operations, increases in purchases or sales or in net open interest, may be assumed to occur generally on the initiative of some large operator." *See Senate Document* 135, *Page* 68-69.

Volume 7, *Page* 289. "The claims frequently made for the stabilizing effect of future trading upon prices have been considered at some length in this report and have not been found to be warranted. Common observation as well as fundamental economic analysis point to the great importance of stability of grain prices."

Volume 6, *Page* 240. "When all this is said, however, it does seem that the amount of price movement that is aimless and fruitless, in the sense that the price gets relatively nowhere as a result of it, is unduly and undesirably large. These fluctuations, if they do anybody good, are doubtless an opportunity for middlemen and speculators and not for producers and consumers."

The above reference corroborates the testimony of Charles Quinn, secretary of The Grain Dealers' Association, in his testimony before the Agricultural Committee of the house in the hearing on the Capper-Tincher Bill or the Grain Futures Act, in which Mr. Quinn testified that the Chicago Board of Trade is not run in the interest of the producer nor the consumer, but run exclusively for the benefit of the members of the Board on the principle of "enlightened self interest."

Senate Document 135, *Page* 6. "The traders whose net holding in the May wheat future amounted to two million bushels or more, were those whose trading revealed a pronounced relation to price changes during this period. It is shown herein that those price fluctuations which so seriously upset the market during the period under investigation were largely of an artificial

character and resulted mainly in response to pressure by large traders."

Senate Document 135, *Page* 7. "It was evident, however, from a careful analysis of the transactions that the heavy trading by a few large professional speculators aided by the reckless participation by the general public, was primarily responsible for wide price fluctuations, which were detrimental to legitimate grain interests. Assuming that this trading may have been based on the bonafide judgment of the individual traders as to proper values, nevertheless it resulted in an abnormal movement of prices similar to that produced by willful manipulation. But whether or not there was manipulation of the market it was perfectly apparent that some definite action must be taken to prevent wide price fluctuations."

Senate Document 135, *Page* 11. "On the other hand, seasoned traders generally recognize that whenever market activities assume sufficient importance to be given a front page position by the press, the advance is nearing the danger limit. As a rule this is accepted as a signal to take profits on long holding and to sell short."

Senate Document 135, *Page* 12. "It was evident that the wide price changes and the erratic fluctuations had but little relationship to supply and demand for real wheat, and that the market was fundamentally speculative in character."

Senate Document 135, *Page* 19. "In the early part of this period (meaning the period of investigation) the price declined under heavy selling from $2.05 7-8 to $1.77 1-2.

Senate Document 135, *Page* 33. "The trading by individuals in building up or reducing long or short 'lines' is of interest in studying price movements."

Senate Document 135, *Page* 67. "When considered with the preceding analysis of net amounts by days, the conclusion seems warranted that net purchases or sales, whether by one individual or as a net of several large trades, to an amount of two million bushels on a single day will usually cause the price to move in the same direction, i. e., if a purchase, an advance in price; if a sale, a decline in price.

Senate Document 135, *Pages* 68 *and* 69. "Trader No. 12. The outstanding point of interest regarding the operations of this individual are the precipitous and frequent changes in his position in the market. Not only were this individual's operations on a very extensive scale, running repeatedly into the millions, but they are singularly uncertain and precipitous in changes in market position. On three separate occasions during the brief period covered by this study, this trader built up a long position in the May future of 4,000,000 bushels or more only to be thrown over in each instance completely and a short position of millions assumed. Disregarding the size and precipitous method of trad-

ing, it should be observed that this trader changed his position from long to short, or vice versa, eleven times during the period. In view of the manner in which one would expect a speculator to change his position in trying to forecast the trend in future prices, one is forced to conclude that this particular trader's operations were manipulative in effect, their effect being to direct wheat prices rather than to follow them.

"It does not follow of course, that because this trader's operations were sufficient to direct prices that he, in every instance, made thereby a profit. It is only when buying of this character induces others to buy and thus continue prices upward or a sudden and immense sale precipitates a selling stampede which extends a downward movement, that a profit results. This he apparently succeeded in doing when on January 12, a purchase of 3,750,000 bushels was made and the price of May wheat was moved into new high ground to continue upward until the 28th of January. And again on February 27 and March 2 sales to a combined amount of 5,200,000 bushels followed by other large sales and a decline in the May wheat price beginning March 2 continued irregularly throughout March. However, after March 17 the success of this individual, and of certain other large speculators in attracting the "public" into the market and thus continuing the price up or down, was very limited."

Dept. Bulletin 1479, *Page* 18, concerning operations of trader No. 1 of the group of 8 who control the price, the supervisor says: "The erratic course of his trading strongly suggests instead that his object was not so much to anticipate changes in price levels as to attempt to direct the course of prices. This method of trading may in some instances be due to forced liquidation or to covering. In most cases, however, it is based upon a theory of larger profits to the trader. In accumulating a position either long or short, the trader does not need to maintain the degree of secrecy that is necessary in liquidating or in covering and especially after a considerable fraction of his 'line' has been acquired. If in accumulating a long line coincident with an upward movement in price a wide following of small amateurs are encouraged to enter the market, the price will continue upward and sufficient buying strength added to permit the trader to liquidate with a minimum break or even an advance in price. Liquidation must be accomplished QUICKLY AND SECRETLY, however, or the following built up while accumulating a 'line' may also liquidate, and unusual price breaks result."

Bulletin 1479, *Page* 21. "The results of the comparison presented in Table 2 show that whenever large trades aggregrating 2,000,000 bushels or more occur within the limits of one trading day, the chances are 9 to 1 that the price will move in the same direction as the net of purchases and sales."

Bulletin 1479, *Page* 33. "Summarized the data show: (1) That the larger the net purchase or the net sale made within the

limits of one trading day, the more certain it becomes that the price will move in the same direction; (2) When net trades exceed the 2,000,000 bushel limit, the chances are not less than 4 to 1 that the price will move in the same direction as the net purchase or sale—if a purchase, upward, if a sale downward."

Bulletin 1479, *Page* 39. "The material presented and analyzed in the preceding pages may now be briefly summarized as follows: When the trading of the 8 largest speculators in the 1926 May wheat future on the Chicago Board of Trade is compared with price changes, it directly relates to the movements in price. This is true whether considered within the trading day, from one trading day to the next, or for the course of trading over a longer period of time. The larger the net trading or net position of individual speculators, the more certain it becomes that the trading will directly influence prices. In contrast, futures prices generally move in the opposite direction to the operations of the small and medium-sized 'general public' trader. This likewise is true within an individual day, from one day to the next and over longer periods of time."

Bulletin 1479, *Page* 41. "An outstanding observation that can be made is that the volume of purchases or sales is not in itself an adequate explanation for price movements. It has often been said by adverse critics of exchanges that speculators short-selling millions of bushels of grain permanently depress the price. The proponents of organized speculation have answered that this could not be since these same short sellers must later buy to an equal extent. Both arguments have very little merit. For every sale, there must at the same instant be a purchase; for sales in large volume, there must at the same instant be purchases in equally large volume. If, therefore, either buying or selling in itself were an adequate explanation of price changes, the price obviously would never move up or down.

"The information already presented indicates that the manner in which sales or purchases are made rather than mere quantity, vitally effects the course of prices. Table 2 shows that there is a vast difference between selling 5,000,000 bushels of wheat futures during the course of one day and the same operation spread over several days. Figure 8 shows the vital difference between a purchase or sale of 5,000,000 bushels made by several hundred small traders sending in orders intermittently to be executed 'at the market,' and the purchase or sale of an equal amount by one or two individuals closely directing the manner in which their orders are executed and noting their effect upon the price.

"Close analogies are to be found in the field of cooperative bargaining. For individual laborers to call upon their employer intermittently in an effort to raise their wage scale may have little effect, but to join together and call in a body under shrewd leadership may result differently. Similarly in the sale of any

commodity, where offered on the market by hundreds of producers in small uncertain quantities at irregular intervals, the effect upon the market price is much more uncertain than if sold by a single controlling influence and in accordance with a definite PREARRANGED PLAN."

Bulletin 1479, *Page* 43, in outlining remedies to cure the evils existing the supervisor says: "But whatever the solution it is evident that large trading operations obviously designed to influence prices, and especially operations which involve heavy swings at frequent intervals from one side of the market to the other have neither economic nor moral justification. It seems equally true that a futures market in which an individual trader may buy or sell within a single trading day a quantity equivalent to 10 or 12 percent of the total trading for the day in the dominant future is not a market based on the supply of or the demand for actual grain."

"Speculation and the price of Wheat" by Rollin E. Smith; in the introduction the author says: "Honest criticism should not be taken as reflecting prejudice. The writer criticises the abuses by professional speculators of the system of trading in grain futures, but the market system itself is not criticised. He is not opposed to speculation as such in the grain futures markets, but he does oppose (and has for many years done so in his writings), the market evil of heavy trading by professionals, whether buying for an advance or selling short for a decline. He is especially opposed to heavy short selling during or just before the crop moving season, for he knows from observation that this often depresses the price of the farmers crop at a time when the farmer cannot hold back his grain."

Rollin E. Smith, Page 10. "Grain futures are verbal contracts of purchase or sale made in the futures market or 'the pit' of a grain exxchange. To be exact, the grain itself is not traded in; grain is not bought and sold for future delivery. The transactions are in contracts. Delivery on contracts made in the futures market cannot be compelled. The unusual features of such contracts are that delivery is seldom intended."

Rollin E. Smith, Page 15. "A man does not 'sell short.' No one can sell anything before he has bought it. No speculator can sell anything that he does not own. In each case, he may say that he will do so; he may agree to do so; or he may enter into a contract to do so. But no court or other power can compel him to fulfill his promise or agreement or contract."

Rollin E. Smith, Page 16. "A short sale is speculative. Only speculators sell short. There is nothing back of a short sale; it represents nothing physical. A short sale is made with the hope of gaining a profit through a decline in price."

Rollin E. Smith, Page 21. " 'The public' includes all who are not really in the professional class of speculators—those who

place their orders with commission houses. While there is always some public participation in the market, the volume declines to very small proportions at times. Again, during big bull markets, particularly when they are based on crop scares, the volume of public speculation becomes enormous. At such times it includes business men, professional men, employees in all kinds of occupations and even women. The public becomes interested when the daily papers begin to publish front page stories about the market, containing statements by big speculators telling of scarcity of wheat and how high the prices may go.

"The public has no more chance in the market than a man who has never played anything but 'penny ante' with a ten-cent limit among friends would have, should he 'sit in' a game without a limit among professionals. In either instance the amateurs money melts away like a snowball at a summer resort, and most of it goes by reason of mistakes that are obvious to anyone experienced in the game. The old saying 'Never play another man's game,' is particularly applicable to the public and the wheat market," (And we might add the Farmers.) It is so utterly absurd for the public to try to make money in the market that it might be regarded as a joke if it were not too often a tragedy."

Rollin E. Smith, Page 28. "In theory the futures markets are a perfect piece of commercial machinery. They are not actually so, because they are misused by professional speculators. The chief misuses to which the futures markets are subjected may be summarized as follows: (1) Too great a volume of professional speculation. (2) Speculation by members and employees of commission houses. (3) Speculation by brokers, whose real business is to execute orders for others. (4) Scalpers executing orders for others while they are at the same time trading on their own account. (5) Very heavy trading by a few big professionals, men who buy, or sell short, 10,000,000 bushels or more. (6) Short selling on a large scale. (7) Misleading the public by professionals, by means of published opinions on market conditions, crop conditions, supplies and requirements at home and in Europe. Sentiment either for or against the price is not infrequently developed by a publicity campaign. Obviously the futures markets are too valuable, economically, to be scrapped. On the other hand, some of the misuses seem so unfair to the producer, and so economically unsound, that they cannot endure. Therefore, it develops, according to grain exchange argument, that not only must there be a large volume of speculation to make a satisfactory market, but the 'outside' the public, must supply the buying orders when they are most needed. Now what is the answer to that? How shall the public be induced to come into the market with buying orders heavy enough to absorb both the hedging sales of the elevator companies and the short sales of the professional speculators? And why should the 'public,' (And the farmer) be made the goat for the benefit of professional speculators?"

Rollin E. Smith, Page 30. "When their members put obstruction such as price manipulation or excessive price fluctuations caused by speculation in the way of free distribution, they are working contrary to public interest. The greatest evil of the American grain markets is manipulation by a few powerful and daring traders; men who ignore commercial ethics, defy trade opinion, and who endeavor to draw the public into the market and, finally, during the excitement of a bull market, sell out and let the public (And the farmer) hold the bag." *See also Senate Document* 135.

Rollin E. Smith, Page 31. "These big traders use the market as if it were their own private affair, absolutely regardless of other members' rights or of the menace their operations are to the business of others. The commission business of such companies is only a smoke screen for their own operations in the futures." See also Volume 5, Federal Trade Commission Report.

Speaking of the decline in 1920, on page 37, Mr. Smith says: "The public has been told it was caused by economic conditions, supply and demand, world conditions, deflations, and other things. But short selling by big speculators was the chief cause of the vertical decline; and the decline was far greater than it should have been—greater than legitimate conditions warranted."

Rollin E. Smith, Page 42. "Selling wheat short is to create in a moment, that much additional supply from nothing. It is often argued that speculation merely anticipates the working out of the law of supply and demand. But a drastic decline largely brought about by short selling is not only demoralizing to commercial interests, but also works against the producer. That is, he must sell his grain at the fictitious price made by the short seller."

Rollin E. Smith, Page 43. "Big speculators trade in as many millions of bushels as they dare to, and the biggest and boldest often carry the market their way."

Rollin E. Smith, Page 44. "Beyond a certain point, speculation cannot serve a useful purpose. On the contrary, the influence of unlimited speculation may at one time be a heavy weight on the producer, and again upon the consumer. Furthermore, an active speculative market, either advancing or declining, is demoralizing to the grain and milling business by reason of the uncertainties that are caused." (Also see Senate Document 135.)

Rollin E. Smith, Page 50. Why does the law of supply and demand not function? "Because it is daily interfered with and

set aside by men who decide at what price commodities shall be sold. In the produce and fruit markets for instance; and by speculators in the grain markets on the exchanges, who deal in unlimited volume of contracts, the quotations of which are used as the basis for cash grain. As this great flood of speculative transactions shifts first one way and then the other, according to the changing balance of professional operations, so the price basis for wheat, corn, oats, and rye, is made; thus the basic price for the farmers' crops are made by speculators. Actual supply and demand conditions are at such times entirely ignored. The most important factor in making world wheat prices is the Chicago Board of Trade. Chicago Board of Trade prices are the basic prices for the world, Russia excepted."

Rollin E. Smith, Page 63. "Why has the Board of Trade made such a strenuous fight during all these years against any check upon speculation? The answer is apparent. The speculative commission houses of the Board of Trade fear that this law may be the opening wedge in a movement to curtail speculation, and particularly short selling. This would mean a great loss in commissions and speculative profits. The public annually loses many millions of dollars in the grain markets, besides paying an immense amount in commissions. PROFESSIONAL TRADERS GET ALL THAT MONEY. It is therefore, not surprising that they fight every effort of congress to supervise their speculative activities."

In this connection it may be well to quote Edward J. Dies, secretary to the president of the Chicago Board of Trade, in his book "The Wheat Pit" on page 55. "But time and again they have forced the exchanges to drain their resources in a fight for existence." He also adds that the exchange spent a fortune fighting the "Hatch Bill." It may be interesting if congress would investigate this and see how much the Board of Trade spent to drain their resources. How it was spent and who got the money. Mr. Smith says that the commission houses got the money from the public in commissions and margins. We learn from Federal Trade Commission Reports that the commission on the future sales amount from twenty million to twenty-five million dollars annually with perhaps an average of seventy-two thousand dollars per day in commissions to the operators of the "pit." Add to this amount the loss in margins and it will run into the hundreds of millions as ninety-five percent of all who bet on it lose the money put up. Add to this the losses to the producers caused by the wide and unnecessary fluctuations, (farmers seldom if ever, get the true value of their products) and you can readily see that billions of dollars are taken annually from the farmers and the public, filling the coffers of a few big grafters operating under the guise of an exchange, with ill gotten gains. Why does not the government stop it, did you say? When Lawson wrote Friday the Thirteenth, he said the system was "bigger than the government." Did Lawson tell the truth?

In conclusion may we ask a few questions? Has the Chicago Board of Trade the right to fix the price of Ford's new car? Has it the right to fix the price of manufactured products? Has it the right to fix the interest rate on money? Has it the right to fix the salaries of the president and congress? If you answer in the negative, then may we ask what right has it to fix the farmers' salaries, or regulate his salary by fixing the prices on his products?

Respectfully submitted to all who are willing to fight to emancipate the farmer and the public from the clutches, the evils and iniquities of the Chicago Board of Trade, disclosed in this brief.

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